**RESPONSE OF**
**OKLAHOMA GAS AND ELECTRIC COMPANY**
**TO U.S. DEPARTMENT OF ENERGY INQUIRY**
**REGARDING ECONOMIC DISPATCH**

Oklahoma Gas and Electric Company (OG&E) appreciates this opportunity to provide comments to the U.S. Department of Energy regarding economic dispatch. OG&E is wholly owned by OGE Energy Corp. OGE Energy and its subsidiaries have approximately 3,000 employees. OG&E serves approximately 735,000 retail customers in Oklahoma and western Arkansas and a number of wholesale customers throughout the region. OG&E has nine power plants capable of producing approximately 6,100 megawatts. OG&E generates about 70 percent of its electricity from low-sulfur Wyoming coal and 30 percent from natural gas. The company delivers electricity across an interconnected transmission and distribution system spanning 30,000 square miles. OG&E is a member of the Southwest Power Pool (SPP).

OG&E supports lower rates for customers. Indeed, OG&E has worked hard to operate its system in the most efficient and reliable manner to ensure that its customers pay the lowest reasonable rates. OG&E relies not only on its own generation resources but, when the price is right and operational concerns can be accommodated,[1] OG&E often purchases power from third parties. In addition to this process, OG&E operates an Electronic Bulletin Board (EBB) through which OG&E actively seeks third-party sellers to offer to sell power to OG&E for resale to OG&E's native load. OG&E's procurement practices are reviewed by the Oklahoma Corporation Commission (OCC) and Arkansas Public Service Commission (APSC). Finally, the SPP has taken steps to create a market to facilitate the ability of third-party generators to sell power in the SPP region.

OG&E is very concerned that imposition of federally-mandated economic dispatch in regions where the state legislatures or state regulatory commissions have not implemented retail access, such as Oklahoma and Arkansas, would be an improper "end run" around the policy decisions of state officials and could impose higher costs on consumers over the long run. OG&E's experience has been that predictions of savings from economic dispatch programs are largely illusory. **Clearly, the goal of an economic dispatch program cannot and should not be to increase the sales by non-utility generators (NUG).** The goal must be to provide lower overall costs (both long-term and short-term) to consumers.

OG&E believes that the U.S. Department of Energy and the Congress should not automatically conclude that a federally-mandated economic dispatch program will benefit consumers. It should be left to the states to determine whether to implement an economic dispatch program that requires a utility to buy from a NUG and to ensure that the program truly

[1] By operational concerns, OG&E means issues such as ensuring OG&E satisfies ancillary service needs or that OG&E comply with preexisting contractual obligations to purchase power from another resource. For example, OG&E may be obligated by law to take the output of a qualifying facility (QF). OG&E could not be expected to "back down" a QF unit to purchase power from a non-utility generator regardless of the price of the generator's power.

provides lower rates for consumers. Resource procurement traditionally has been a retail issue and the state regulators are best able to determine the appropriate procurement programs for consumers in their regions.

**1. What are the procedures now used in your region for economic dispatch. Who is performing such dispatch (a utility, and ISO or RTO, or other) and over how large an area (geographic scope, MW load, MW generation resources, number of retail customers within a dispatch area)?**

Section 1234(b) of the Energy Policy Act of 2005, P. L. No. 109-58 (2005), defines economic dispatch as "the operation of generation facilities to produce energy at the lowest cost to reliably serve customers, recognizing any operational limits of generation and transmission facilities." OG&E's control area covers approximately 30,000 square miles and its summer peak load in 2005 was 6,145 MW. When dispatching its generation resources, OG&E often purchases power from third parties when, taking all costs as well as operational and reliability factors into consideration, the purchase from a third-party would minimize the costs to OG&E's ratepayers. In Oklahoma and Arkansas, where the state legislatures have not adopted retail access, the OCC and APSC review OG&E's costs and procurement practices to ensure optimal results for consumers. Thus, in both of these states, there already is a process by which consumers are served at the lowest reasonable cost.

Since the OCC and APSC already review OG&E's procurement of power to meet the needs of its customers, OG&E believes that a federally-mandated economic dispatch program is unnecessary in Oklahoma and Arkansas. In fact, the creation of a mandatory federal economic dispatch program would likely add another layer of regulation and costs on OG&E, and ultimately increase costs to its consumers, with very little, if any, incremental benefit to those consumers. Further, because resource procurement is traditionally a retail issue, having FERC and the state commission review a utility's procurement could result in conflicting directives being imposed on a utility, which also may result in higher costs for consumers.

**2. Is the Act's definition of economic dispatch (see above) appropriate? Over what geographic scale or area should economic dispatch be practiced? Besides cost and reliability, are there other factors or considerations that should be considered in economic dispatch, and why?**

The definition of economic dispatch falls short because it fails to recognize potential long-term costs to customers and, in states without retail access, a utility's obligation to serve.

It has been OG&E's experience that some advocates of economic dispatch fail to consider all costs and, as a result, their proposed programs are little more than mechanisms to force a utility to buy power from NUGs regardless of the cost. Of course, that result does not serve consumers. Therefore, OG&E first wants to emphasize that, in determining whether an economic dispatch program actually benefits consumers, the program must take into consideration *all* costs, both short-term and long-term, that the consumer must bear. Regulators and legislators must review the claimed benefit of economic dispatch proposals very carefully, because a close examination of the data often shows that the savings are illusory.

For example, a utility must run a portion of its own plants for reliability purposes and to fulfill ancillary service requirements even if it purchases power from a NUG under an economic dispatch plan. These back-up costs are often overlooked by advocates of mandatory economic dispatch. In addition, a utility may have generation with must-run requirements or that is subject to must-take contractual obligations, such as resources under QF contracts, and a utility simply cannot choose to back those units down to purchase power from a NUG. Also, a program that requires the purchase of capacity from a NUG may trigger imputed debt costs to the utility, which ultimately will increase ratepayer costs.

The focus on costs should be on the cost to the consumer for the power. This cost must be distinguished from the production cost of a NUG. A NUG typically sells its output at a price equal to its "cost" plus a margin. The ultimate price that the utility would pay for the NUG power could be even higher than the NUG price if the transaction imposes reliability or operational costs on the utility. In other words, even though a NUG facility may have a comparatively low heat rate and may generate power at a comparatively lower cost than a utility, these two facts do not mean that the NUG's power is the best overall option for consumers once the NUG's margin as well as reliability and operational concerns are considered. Therefore, production cost is clearly not the only factor that a regulator should consider when considering an economic dispatch program. In addition, advocates of economic dispatch often assume perfect market conditions will exist, such a assuming that the NUGs would be willing to sell to a utility over extensive periods of time. These assumptions are incorrect.

In sum, regulators and legislators should not take at "face value" assertions that any economic dispatch program will lower consumer costs. Regulators and legislators designing the programs must ensure that *all* costs and service factors are considered when evaluating the need for an economic dispatch program.

Regulators also must recognize the impact of the utility's obligation to serve. Because of long-term service and planning obligations imposed on OG&E, even if an economic dispatch program provides lower rates in the short-term, the program could actually result in higher costs for consumers in the long-term. To comply with its mandatory service obligation, OG&E must plan to serve existing and projected load growth. OG&E, like most other utilities, meets this current and future obligation with a mix of long-term (baseload plants and long-term fixed contracts) and short-term (spot market) power options. Although a long-term option may at certain times be more expensive than power that could be purchased on the spot market (*e.g.*, purchasing power from a third-party under an economic dispatch program), the long-term option may be a more efficient option to meet future load growth. In addition, the long-term resources often provide a significant cushion against the volatility of the spot market. The price spikes that were endured by ratepayers in the Midwest and in the California market in the late 1990s and early 2000s are prime examples of the devastating impacts of too much reliance on the spot market.

Also, in OG&E's view, a federally-mandated economic dispatch program would be an improper circumvention of the prevailing statutory regimes governing the retail sale of electricity in Oklahoma and Arkansas. Neither Oklahoma nor Arkansas has adopted retail access. Both Oklahoma and Arkansas took initial steps to implement retail competition in their respective states, but, for a variety of reasons, abandoned the idea and decided to keep the current

regulatory structure (no retail access) in place. With the state legislatures of Oklahoma and Arkansas having chosen to not permit NUGs to sell directly to OG&E's and other utilities' retail customers in Oklahoma and Arkansas, a federally-mandated economic dispatch program should not override these decisions by forcing OG&E and presumably other utilities in the states without retail access to buy power from NUGs and deliver it to their retail customers.

Stated differently, if retail competition had been implemented, NUGs along with all other generators (including OG&E) could have competed for OG&E's retail customers. Then retail customers could have picked their generation supply based on a variety of factors, including cost. A federally mandated economic dispatch program will have the same result. The only minor difference is that, instead of NUGs and utilities competing for OG&E's retail electric customers, they will compete for the electric load of OG&E's retail customers. Others will argue that allowing NUGs to compete for retail load will be an improvement. Yet, competition at the retail level is a structure expressly rejected by the legislatures of Oklahoma, Arkansas, and numerous other states.

The ramifications of federally-mandated economic dispatch at the state-level are numerous, complicated and, in many instances, identical to issues associated with retail access. For example, if other utilities and NUGs can sell through OG&E to OG&E's customers, then OG&E should be able to sell to these other entities' customers as well to ensure a more competitive marketplace. Obviously, this would lead to state retail rate issues, including issues regarding recovery of stranded costs.

**3. How do economic dispatch procedures differ for different classes of generation, including utility-owned versus non-utility generation: Do actual operational practices differ from the formal procedures required under tariff or federal or state rules, or from the economic dispatch definition above? If there is a difference, please indicate what the difference is, how often this occurs, and its impacts upon non-utility generation and upon retail electricity users.**

A utility may operate "must-run" generation or may have contractual obligations that require it to take power from a resource, such as a QF contract. These resources would be included in the utility's dispatch decisions. However, because of the added operational or contractual obligations associated with these resources, these resources may necessarily obtain different treatment when the price stack is created for each dispatch interval.

**4. What changes in economic dispatch procedures would lead to more non-utility generator dispatch? If you think that changes are needed to current economic dispatch procedures in your area to better enable economic dispatch participation by non-utility generators, please explain the changes you recommend.**

The purpose of an economic dispatch program should not be to lead to more NUG dispatch. Instead, the purpose of an economic dispatch program should be to minimize the costs (both short-term and long-term) of power to consumers regardless of the ownership of the generation but subject to operational and reliability concerns. OG&E believes that its current procedures achieve that objective.

**5. If economic dispatch causes greater dispatch and use of non-utility generation, what effects might this have -- on the grid, on the mix of energy and capacity available to retail customers, to energy prices and costs, to environmental emissions, or other impacts? How would this affect retail customers in particular states or nationwide?**

A mandated economic dispatch program could result in increased costs to consumers in a variety of forms. For example, utilities make short-term dispatch decisions based on their existing generation facilities, which in turn are in place due to long-term integrated planning criteria and are subject to regulatory treatment for continuing recovery of fixed costs. Existing generation plants that are forced to ramp down, go off line, or that are displaced to accommodate the dispatch of NUGs under a mandated economic dispatch program could result in a state refusing to allow a utility to recover its costs for these facilities. The costs of these facilities must be paid. In addition, many utilities are encouraged to enter into long-term contracts, e.g. fuel contracts, which include take-or-pay provisions. If utility generation units are displaced by NUGs through a mandatory economic dispatch program that does not consider existing contracts and agreements, and utility generators are not able to use, for instance, fuels that they are contractually obligated to purchase, the result could be increased costs to retail customers.

**6. Could there be implications for grid reliability -- positive or negative -- from greater use of economic dispatch? If so, how should economic dispatch be modified or enhanced to protect reliability?**

Greater use of economic dispatch has the potential to negatively impact reliability. As mentioned above, OG&E has a continuing, long-term duty to serve. OG&E operates and maintains its system with that duty in mind. NUGs, however, typically do not have that duty. To the extent that a NUG does not accept those obligations, the utility is required to maintain and operate its own assets to fulfill those obligations. Further, a utility does not control the operation or maintenance of a NUG resource. Even when a utility relies on a NUG to serve the utility's load, the utility still must plan and take steps to ensure that it has resources available and under its control to serve its customers in the long run.

If you have any questions regarding this information, please contact:

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